

# **Matatiele Local Municipality**

## **Audit Report**

**For the year ended 30 June 2018**

# Report of the Auditor-General to Eastern Cape Provincial Legislature and the Council of the Matatiele Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Matatiele Local Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018 the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Matatiele Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Accepted Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act No 3 of 2016) (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Material impairments – Receivables from non-exchange transactions

7. As disclosed in note 3 to the financial statements, material impairments of R 31,4 million (2017: R28,4 million) were incurred as a result of a non-payment of debtors.

### **Material impairments – Receivables from exchange transactions**

8. As disclosed in note 5 to the financial statements, material impairments of R8 million (2017: R11,1 million) were incurred as a result of non-payment of debtors.

### **Material impairments – Property, plant and equipment**

9. As disclosed in notes 8 to the financial statements, material impairments of R19,4 million were incurred as a result of property, plant and equipment being impaired in the current year.

### **Restatement of corresponding figures**

10. As disclosed in note 52 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### **Irregular expenditure**

11. As disclosed in note 40 to the financial statements, irregular expenditure of R1,9 million that was incurred in the previous years was still under investigation.

### **Other matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Unaudited supplementary information**

14. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Responsibilities of the accounting officer for the financial statements**

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DORA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018.

Development priorities	Pages in the annual performance report
KPA 1: Basic service delivery and infrastructure	x – x
KPA 3: Local Economic Development	x – x

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### **KPA 1 – Basic service delivery and infrastructure**

##### **Usefulness**

##### **Various objectives**

24. The following strategic objectives related to the indicators approved in the amended service delivery and budget implementation plan (amended SDBIP), were not consistent with the reported strategic objectives in the annual performance report.

<b>Indicator number</b>	<b>Planned objective</b>	<b>Reported objective</b>
P1G2O12.06	Ensure compliance to legislation, adopted policies and plans.	Improve road traffic safety and access to traffic licencing services
P1G1O10.01	Plan, design and provide a sustainable human capital establishment.	Maintain and refurbish municipal amenities /facilities
P1G1O10.02.02	Plan, design and provide a sustainable human capital establishment.	Maintain and refurbish municipal amenities /facilities
P1G1O10.02.03	Plan, design and provide a sustainable human capital establishment.	Maintain and refurbish municipal amenities /facilities

##### **Various indicators**

25. The indicators listed below were approved in the amended SDBIP, but were not included in the annual performance report. This change was also not approved.

<b>Indicator number</b>	<b>Indicator description</b>	<b>Planned target</b>
P1G1O6.01	Percentage of silo construction completed by set date.	Stage 7 (80%) Windows Plastering Landscaping
P1G1O3.01.1	Percentage of internal streets constructed.	Construct 100% completion of a 4km surfaced road by 30 June 2018.
P1G1O1.01	Number of indigent beneficiaries provided with services by set date.	Provide services to 20542 indigent beneficiaries as follows: Electricity Refuse and rates Gel and oil Solar.
P4G3O23.02	Percentage of implemented procurement plan by set date.	100% implementation of the approved procurement plan by 30 September 2018.
P4G3O23.01	Approved procurement plan by set date.	Approval of procurement plan by 31 July 2017.

## Various Indicators

26. The targets listed below were approved in the amended SDBIP; however, the reported targets in the annual performance report (APR) were different. This change was also not approved.

Indicator number	Indicator description	Planned targets as per SDBIP	Planned target as per APR
P1G103.02.7.1	Number of kilometres of gravel road constructed by the set date	Maintenance and rehabilitation of Thaba-Bosiu Access Road by 30 June 2017	Construction of Thaba-Bosiu Access Road by 30 June 2017
P1G103.02.7.2	Kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Sigoga Access Road by 30 June 2017	Construction of Sigoga Access Road by 30 June 2017
P1G103.02.7.3	Number of kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Mapfontein access road by 30 June 2017	Construction Mapfontein access road by 30 June 2017
P1G103.02.7.4	Number of kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Rholweni to Fiva access road by 30 June 2018	Construction Rholweni to Fiva access road by 30 June 2018
P1G103.02.7.5	Number of kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Nchodu access road by 30 June 2018	Construction of Nchodu access road by 30 June 2018
P1G103.02.7.6	Number of kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Sphola to Arfsondering access road by 30 June 2018.	Construction of Sphola to Arfsondering access Road by 30 June 2018
P1G103.02.7.7	Number of kilometres of gravel roads constructed by set date	Maintenance and rehabilitation of Harry Gwala access road by 30 June 2018.	Construction of Harry Gwala access road by 30 June 2018

## Various indicators

27. The planned targets for the indicators listed below did not specify the period or deadline for delivery.

Indicator number	Indicator descriptions	Planned targets
P1G106.01 (SDBIP)	Percentage of silo construction completed by set date	Stage 7 (80%) Windows Plastering Landscaping
P1G101.01	Number of indigent beneficiaries provided with services by set date.	Provide services to 20542 indigent beneficiaries as follows: Electricity Refuse and rates Gel and oil Solar

## Various indicators

28. The planned target for the following indicators was not measurable as the period specified for the achievement was impractical.

Indicator number	Indicator descriptions	Planned targets as per SDBIP
P1G107.01.10	Number of MVA substation constructed by set date.	Construction of new 10 MVA Mzongwana substation by 30 June 2017
P1G104.02.13	Percentage of gravel roads constructed by set date	100% completion of Mangopeng bridge constructed by 30 June 2017
P1G103.02.7.1	Number of kilometres of gravel road constructed by set date.	Maintenance and rehabilitation of Thaba-Bosiu access road by 30 June 2017
P1G103.02.7.2	Kilometers of gravel roads constructed by set date.	Maintenance and rehabilitation of Sigoga access road by 30 June 2017
P1G103.02.7.3	Number of kilometres of gravel roads constructed by set date.	Maintenance and rehabilitation of Mapfontein access road by 30 June 2017

## Reliability

### Various indicators

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 10 of the 103 indicators relating to this programme. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below.

Indicator Number	Indicator description	Number of indicators
P1G107.01.14	Construction of 2x 11 KV (4.16 km) link line from Mountain View substation by 30 June 2018.	1
P1G105.01.1	Number of metres of dongas rehabilitated in nature reserve by set date.	1
P1G2011.11	To construct 65% completion of a Matatiele sport centre by 30 June 2018.	1
P1G2011.12	Cleaning and removal of waste for 96 days from 7 427 households in wards 1, 19, 20 and 26 by 30 June 2018.	1
P1G2011.10	Daily cleaning and removal of waste in 701 businesses in the CBD by 30 June 2018.	1
P1G107.01.4	Procurement and delivery of a skip loader truck and 20 skip bins by 30 June 2018.	1
P1G2011.09	Connection of 243 households in Nkali A, B & C by 30 June 2018.	1
P1G106.01	Prune 48 trees in ward 19 and 20 by 30 June 2018	1
P1G1010.04	Stage 7 (80%): Completion of grain facility completed by 30 June 2018.	1
P1G107.01.14	Complete one routine maintenance at the Maluti office by 30 June 2018.	1

## Various Indicators

30. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows.

Indicator Number	Indicator Description	Reported achievement	Audited value
P1G107.01.7	Number of detailed designs for Khohlong, Tsitsong, Black Diamond, Mohapi, Nice field, Mateleng, Goxa, Lukholweni, Nkungwini, Kwa Matias A and Silindin Electrification projects approved by set date.	Eleven detailed designs for Khohlong, Tsitsong, Black Diamond, Mohapi, Nice field, Mateleng, Goxe, Lukholweni, Nkungwini, Kwa Matias A and Silindini completed in February 2018.	8
P1G103.02.7.1	Number of kilometres of gravel road constructed by set date.	Project practically completed on 17 January 2018.	0
P1G105.01.4	Percentage of completion of a sport facility completed annually.	Project was 100% completed on 30 June 2018.	0
P1G103.01.1	Percentage of internal streets constructed by set date.	Stage 7 (70%): Pavement layers, up to G5 are 100% complete. Stage 8 (90%): Kerbing, is 100% complete.	0
P1G107.01.1	Number of households with access to a basic level of electricity by set date.	Connection of 243 households in Palmaville not connected by set date.	373
P1G103.02.7.2	Number of kilometres of gravel road constructed by set date.	5.1km of Sigoga Access road maintenance and rehabilitation completed on the 24th of May 2018.	4.1
P1G104.02.2	Percentage of gravel roads constructed by set date.	Stage 8: Project is 80% complete. Tipping of gravel completed. Processing of gravel wearing course completed on 30 June 2018.	90%



### KPA 3: Local economic development

#### Usefulness

#### Various objectives

31. The strategic objectives listed below approved in the integrated development plan were not reported in the annual performance report.

- Provide funding support for the ward-based rotational grazing and livestock improvement to all wards.
- Enhance tourism development strategy through identification and management of tourist attractions around the local area.
- Coordinate and improve the functioning of the mountain lake chalet.

#### Various indicators

32. The indicators listed below were approved in the amended SDBIP, but were not included in the annual performance report. This change was also not approved.

Indicator number (SDBIP)	Indicator description	Planned target
No ref	Supplier day hosted by set date.	To host one supplier day through SMME workshop by 30 June 2018.
P3G5041.04	Adopted agriculture strategy by set date.	Facilitate the development of agriculture strategy by 30 June 2018.
P3G4038.021	Adopted industrial development plan by set date.	Facilitate the development of industrial development plan 30 June 2018.
P3G6050.01	Number of monthly reports produced by set date.	Produce 12 monthly reports on the day-to-day operations and management mountain lake chalets and fly-fishing activities by 30 June 2018.
P3G6045.01	Craft trade and exhibition centre established by set date.	Facilitate the establishment of a crafts trade and exhibition centre by 30 June 2018.
P3G6046.01	Tourist attraction audit study completed by set date.	Conduct tourist attraction audit study by 30 June 2018.
P3G4034.01	Percentage of procurements between R30 000,00 and R200 000,00 procured locally by set date.	55% of procurement between R30 000 – R200 000 procured locally by 30 June 2018.
P3G4034.02	Percentage of procurements above R200 000,00 procured locally (within EC) by set date.	30% of procurement above R200 000 procured locally (within EC) by 30 June 2018.

### **Silo agent appointed by set date**

33. The measures taken to improve performance against target appointment of silo agent by 30 June 2018 were not included in the annual performance report.

### **Updated crafters database in all 26 wards by set date**

34. I was unable to obtain sufficient appropriate audit evidence for the target, Update of crafters' database in all 26 wards, that clearly defined the predetermined deadline for delivery. This was due to a lack of technical indicator descriptions and proper systems and processes. I was unable to test whether the target for this indicator was clearly defined by alternative means.

### **Various indicators**

35. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows.

<b>Indicator number</b>	<b>Indicator description</b>	<b>Reported achievement</b>	<b>Audited value</b>
P3G4038.01	Number of sites identified for placing hawker stalls identified by set date	A suitable site for placing of hawker stalls was identified and approved by development planning unit on 25 April 2018.	0
P3G6045.01	Updated crafters database in all 26 wards by set date	Updated crafters database was developed by tourism sub-unit, an advert was issued on 2 April 2018 and closed on 30 April 2018, verification was conducted on 30 April 2018 to 1 May 2018.	0

### **Other matters**

36. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Achievement of planned targets**

37. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 to 32 of this report.

### **Adjustment of material misstatements**

38. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information KPA 1: Basic service delivery and infrastructure and KPA 3: Local economic development. As management did not correct these misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

39. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
40. The material findings on compliance with specific matters in key legislations are as follows:

### **Financial statements, performance and annual reports**

41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of commitments in the cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

### **Strategic planning and performance management**

42. The SDBIP was revised during the year without approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.

## **Other information**

43. The municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report, mayor's foreword and executive summary, governance, service delivery performance, organisational development performance, financial performance, auditor general's findings (including the auditor's report) appendices (including recommendations by the municipal audit committee) as required by sections 121(3) and (4) of the MFMA. Other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
44. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
45. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
46. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other

information is not corrected I may have to re-issue my auditor's report amended as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

47. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance information and the findings on compliance with legislation included in this report.

- The leadership did not set the correct tone for building a high-performance environment that promotes accountability as they did not adequately oversee and monitor performance reporting and compliance with legislation to promote efficiency and effectiveness. The municipality developed a plan to address the internal and external audit findings, but senior management did not monitor adherence to the plan in a timely manner.
- Reported performance information was not supported by reliable information as leadership did not establish processes to address the systems of collecting, collating, verifying and storing performance information. Management did not ensure the integrity and consistency of financial and performance information through regular reconciliation of financial and performance reports. The municipality's implementation and monitoring process has not been effective to ensure compliance with its legislation.

*Auditor-General*

East London

30 November 2018



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Matatiele Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.